Second Draw Loans – 25% Revenue Reduction Requirement

To be eligible for a Second Draw PPP Loan, you must have experienced a revenue reduction of 25% or greater in 2020 relative to 2019. A borrower must calculate this revenue reduction by comparing the borrower's quarterly gross receipts (defined below) for one quarter in 2020 with the borrower's gross receipts for the corresponding quarter of 2019.

SBA provides different ways to measure the 25% revenue reduction depending on your business activity in 2019 & 2020. Determine which of the 4 profiles below describes your business activity to determine what you'll need to show.

Note: Applicants that fit the 1st profile have 2 options for demonstrating revenue reduction as noted below.

Business Activity	What You'll Need to Demonstrate for Revenue Reduction Requirement	Example
All of 4 Quarters of 2019 & All 4 Quarters of 2020	The applicant had gross receipts during the first, second, third, or fourth quarter in 2020 that demonstrate at least a 25% reduction from the applicant's gross receipts during the same quarter in 2019	***Ex/*** *An applicant that had gross receipts of $50,000 in the second quarter of 2019 and had gross receipts of $30,000 in the second quarter of 2020 experienced a 40% revenue reduction between these two quarters*
	An applicant that was in operation in all four quarters of 2019 is deemed to have experienced the revenue reduction if it experienced a reduction in annual receipts of 25% or greater in 2020 compared to 2019 and the borrower submits copies of its annual tax forms substantiating the revenue decline. **See below on how to calculate gross receipts when using annual tax forms.**	***Ex/*** *An applicant that had annual gross receipts of $1,000,000 in 2019 and had gross receipts of $700,000 in 2020 experienced a 30% revenue reduction between the two years.*
Only Active Q3 & Q4 of 2019 & All 4 Quarters of 2020	If the applicant was not in business during the first or second quarter of 2019, but was in business during the third and fourth quarters of 2019, the applicant had gross receipts during the first, second, third, or fourth quarter of 2020 that demonstrate at least a 25% reduction from the applicant's gross receipts during the third or fourth quarter of 2019	***Ex/*** *An applicant that had gross receipts of $50,000 in the third quarter of 2019 and had gross receipts of $30,000 in the third quarter of 2020–demonstrating a reduction of 40% from the applicant's gross receipts during the third quarter in 2019*
Only active Q4 of 2019 & all 4 Quarters of 2020	If the applicant was not in business during the first, second, or third quarter of 2019, but was in business during the fourth quarter of 2019, the applicant had gross receipts during the first, second, third, or fourth quarter of 2020 that demonstrate at least a 25% reduction from the fourth quarter of 2019	***Ex/*** *an applicant that had gross receipts of $50,000 in the fourth quarter of 2019 and had gross receipts of $30,000 in the fourth quarter of 2020–demonstrating a reduction of 40% from the applicant's gross receipts during the fourth quarter in 2019*

This guide is based upon the Interim Final Rule on Second Draw Loans (1/6/2021) and How to Calculate Revenue Reduction guidance (1/19/21) which govern the borrower's obligations. This document is intended to be a guide for businesses and does not supersede borrower's obligations under the Interim Final Rules, guidance or law governing the Paycheck Protection Program.

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No Activity 2019, but active all 4 Quarters of 2020	If the applicant was not in business during 2019, but was in operation on February 15, 2020, the applicant had gross receipts during the second, third, or fourth quarter of 2020 that demonstrate at least a 25% reduction from the gross receipts of the entity during the first quarter of 2020	*Ex/ an applicant that had gross receipts of $50,000 in the first quarter of 2020 and had gross receipts of $30,000 in the fourth quarter of 2020 – demonstrating a reduction of 40% from the applicant's gross receipts during the first quarter in 2020.*

Required Documentation

- Generally, Applicants are required to provide documentation sufficient to establish that the applicant experienced the 25% revenue reduction stated above which may include relevant tax forms, including annual tax forms, or, if relevant tax forms are not available, a copy of the applicant's quarterly income statements or bank statements
- The following are the primary sets of documentation Applicants can provide to substantiate their certification of a 25 percent gross receipts reduction:
    - Quarterly financial statements for the entity.
        - If the financial statements are not audited, **the Applicant must sign and date the first page of the financial statement and initial all other pages**, attesting to their accuracy.
        - If the financial statements do not specifically identify the line item(s) that constitute gross receipts**, the Applicant must annotate which line item(s) constitute gross receipts**.
    - Quarterly or monthly bank statements for the entity showing deposits from the relevant quarters.
        - **The Applicant must annotate, if it is not clear, which deposits listed on the bank statement constitute gross receipts** (e.g., payments for purchases of goods and services) and which do not (e.g., capital infusions).
    - Annual IRS income tax filings of the entity (required if using an annual reference period).
        - If the entity has not yet filed a tax return for 2020, **the Applicant must fill out the return forms, compute the relevant gross receipts value (see below), and sign and date the return**, attesting that the values that enter into the gross receipts computation are the same values that will be filed on the entity's tax return.

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Definition of Gross Receipts

- Includes all revenue in whatever form received or accrued (in accordance with the entity's accounting method) from whatever source, including from the sales of products or services, interest, dividends, rents, royalties, fees, or commissions, reduced by returns and allowances.
- Generally, receipts are considered "total income" (or in the case of a sole proprietorship, independent contractor, or self-employed individual "gross income") plus "cost of goods sold," and excludes net capital gains or losses as these terms are defined and reported on IRS tax return forms.
- Gross receipts do not include the following:
  - taxes collected for and remitted to a taxing authority if included in gross or total income (such as sales or other taxes collected from customers and excluding taxes levied on the concern or its employees);
  - proceeds from transactions between a concern and its domestic or foreign affiliates; and
  - amounts collected for another by a travel agent, real estate agent, advertising agent, conference management service provider, freight forwarder or customs broker.
- All other items, such as subcontractor costs, reimbursements for purchases a contractor makes at a customer's request, investment income, and employee-based costs such as payroll taxes, may not be excluded from gross receipts.
- Gross receipts of a borrower must be aggregated with gross receipts of its affiliates (unless a waiver of affiliation applies[1]). Gross receipts of affiliates are calculated as follows:
  - Gross receipts of a borrower with affiliates is calculated by adding the gross receipts of the business concern with the gross receipts of each affiliate.
  - If a borrower has acquired an affiliate or been acquired as an affiliate during 2020, gross receipts includes the receipts of the acquired or acquiring concern. This aggregation applies for the entire period of measurement, not just the period after the affiliation arose.
    - However, if a concern acquired a segregable division of another business concern during 2020, gross receipts do not include the receipts of the acquired division prior to the acquisition.
  - The gross receipts of a former affiliate are not included. This exclusion of gross receipts of such former affiliate applies during the entire period of measurement, rather than only for the period after which affiliation ceased.

[1] See subsection (d) of the interim final rule titled "Business Loan Program Temporary Changes; Paycheck Protection Program Second Draw Loans" posted on SBA's website January 6, 2021 (86 FR 3712).

    - However, if a borrower sold a segregable division during 2020, the gross receipts will continue to include the receipts of the division that was sold.

- For an eligible nonprofit organization, a veterans organization, an eligible nonprofit news organization, an eligible 501(c)(6) organization, or eligible destination marketing organization, gross receipts means gross receipts within the meaning of section 6033 of the Internal Revenue Code of 1986. which is the gross amount received by the organization during its annual accounting period from all sources without reduction for any costs or expenses including, for example, cost of goods or assets sold, cost of operations, or expenses of earning, raising, or collecting such amounts. Thus "gross receipts" includes, but is not limited to:
    - the gross amount received as contributions, gifts, grants, and similar amounts without reduction for the expenses of raising and collecting such amounts
    - the gross amount received as dues or assessments from members or affiliated organizations without reduction for expenses attributable to the receipt of such amounts
    - gross sales or receipts from business activities (including business activities unrelated to the purpose for which the organization qualifies for exemption, the net income or loss from which may be required to be reported on Form 990-T)
    - the gross amount received from the sale of assets without reduction for cost or other basis and expenses of sale, and
    - the gross amount received as investment income, such as interest, dividends, rents, and royalties.
- The amount of any forgiven First Draw PPP Loan or any Economic Injury Disaster Loan Advance shall not be included toward any borrower's gross receipts.

Use of Annual Income Tax Returns To Demonstrate Gross Receipts Reduction of 25 Percent by Entity Type

- The amounts required to compute gross receipts varies by the entity tax return type[2]:

[2] Any of the following included in the specific tax form lines must be excluded from the computation and annotated on the return: taxes collected for and remitted to a taxing authority if included in gross or total income (such as sales or other taxes collected from customers and excluding taxes levied on the concern or its employees); proceeds from transactions between a concern and its domestic or foreign affiliates; and amounts collected for another by a travel agent, real estate agent, advertising agent, conference management service provider, freight forwarder or customs broker. In particular, for tax returns that include sales tax as income and then as a deduction, annotate next to the "taxes and license" line of the return the amount of such taxes that were included in income.

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- Self-employed individuals other than farmers and ranchers (IRS Form 1040 Schedule C): sum of line 4 and line 7[3]
- For self-employed farmers and ranchers (IRS Form 1040 Schedule F): sum of lines 1b and 9
- For partnerships (IRS Form 1065): sum of lines 2 and 8, minus line 6
- For S-Corporations (IRS Form 1120-S): sum of lines 2 and 6, minus line 4
- For C-Corporations (IRS Form 1120): sum of lines 2 and 11, minus the sum of lines 8 and 9
- For nonprofit organizations (IRS Form 990): the sum of lines 6b(i), 6b(ii), 7b(i), 7b(ii), 8b, 9b, 10b, and 12 (column (A)) of Part VIII
- For nonprofit organizations (IRS Form 990-EZ): sum of lines 5b, 6c, 7b, and 9 of Part I.
- LLCs should follow the instructions that apply to their tax filing status in the reference periods.

- Note: Entities that use a fiscal year to file taxes may document a reduction in gross receipts with income tax returns only if their fiscal year contains all of the second, third, and fourth quarters of the calendar year (i.e., have a fiscal year start date of February 1, March 1, or April 1).

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[3] If you file multiple Schedule C forms on the same Form 1040, you must include and sum across all of them.

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